

Message Text

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ACTION AF-18

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FM AMEMBASSY MONROVIA

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TAGS: EFIN, EINV, EAID, EAGR, UK, XF, LI

SUBJECT: BRITISH-ARAB LOAN/INVESTMENT PROJECT IN LIBERIA

REF: MONROVIA 5320, LONDON 12091

1. EMBASSY APPRECIATES PROMPTNESS REPLY, AND INFORMATION FURNISHED BY EMBASSY LONDON ON FLOWER GROUP OF COMPANIES AND \$100 MILLION LOAN/INVESTMENT AGREEMENT WITH LIBERIA. WE HAVE SINCE LEARNED THAT FINANCIAL BACKING FOR PROJECT TO BE FROM GULF DEVELOPMENT CO., BELIEVED BE PERSIAN GULF-BASED INVESTMENT GROUP. HOWEVER, IT STILL NOT CLEAR WHETHER FUNDS TO BE LOANED TO GOL, USED AS LINE-OF-CREDIT BY GOL, OR DIRECTLY INVESTED BY FLOWER-GULF IN AGRICULTURAL PROJECTS JOINTLY FINANCED BY GOL. VAGUENESS OF AGREEMENT AND CLOAK OF MYSTERY SURROUNDING NEGOTIATIONS TROUBLING TO US AND TO OTHER OBSERVERS. HOWEVER, IT NOT TRULY SURPRISING. DEAL APPARENTLY ARRANGED ENTIRELY BY PRESIDENT'S SON, AMBASSADOR-AT-LARGE ADOLPHUS BENEDICT TOLBERT, WHO NOTORIOUS FOR HIS GRANDIOSE AND UNWORKABLE BUSINESS SCHEMES (SEE MONROVIA A-91 OF SEPTEMBER 23, 1974, NOTAL). WHAT SURPRISING IS THAT DEAL BEING REGARDED SERIOUSLY BY THOSE BOTH IN AND OUT OF GOL WHO FAMILIAR WITH HIS TRACK RECORD.

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2. BRITISH CHARGE HAS INFORMED EMBASSY THAT HE UNDERSTANDS THAT \$100 MILLION AGREEMENT IS FOR LOAN TO GOL AT SIX PER CENT INTEREST AND FIVE-YEAR REPAYMENT TERMS. NO MENTION MADE OF ANY GRACE PERIOD. GOVERNOR OF NATIONAL BANK OF LIBERIA (NEW CENTRAL BANKING INSTITUTION) ADMITS THAT, DESPITE HIS RESPONSIBILITY FOR MANAGEMENT OF EXTERNAL DEBT, HE NOT INVOLVED IN NEGOTIATIONS WITH FLOWER-GULF, OR EVEN INFORMED THEIR OUTCOME. HOWEVER, AT HIS INSISTENCE, MINFINANCE STEPHEN TOLBERT (PRESIDENT'S BROTHER) SAW HIM ON SEPTEMBER 19 TO DISCUSS MATTER. EXPLANATIONS APPARENTLY VERY VAGUE, BUT GOVERNOR GAINED IMPRESSION THAT FUNDS ARE TO BE USED FOR DIRECT JOINT-VENTURE INVESTMENT AND/OR LINE-OF-CREDIT FOR AGRICULTURAL DEVELOPMENT PROJECTS.

3. GOVERNOR STATED THAT, IN VIEW LIBERIA'S WEAKENING BALANCE OF PAYMENTS POSITION DUE DECLINING COMMODITY (RUBBER, LUMBER, DIAMOND) PRICES AND HIGH COST IMPORTED OIL, HE ADVISED MINFINANCE PROCEED WITH CAUTION ON ANY LOAN OR JOINT-VENTURE PROJECTS. HE POINTED OUT THAT ANY FOREIGN BORROWING OTHER THAN SOFT LOANS WITH LENGTHY MATURITIES (IDA, IBRD, USAID, ETC.) SHOULD BE LIMITED TO FINANCING OF PROJECTS WHICH CAN REPAY DEBT DIRECTLY FROM EXPORT OR IMPORT-SUBSTITUTION EARNINGS. IN THE CASE OF JOINT-VENTURES, HE RECOMMENDED THAT GOL EQUITY PARTICIPATION BE RESTRICTED. IT OBVIOUS THAT GOVERNOR FEARS THAT IMPULSIVE WHEELING AND DEALING BY TOLBERTS COULD CREATE BALANCE OF PAYMENTS, BUDGETARY, AND INTERNAL LIQUIDITY PROBLEMS WHICH BEYOND LIMITED CAPABILITY GOL TO HANDLE.

4. EMBASSY/USAID SHARE NATIONAL BANK GOVERNOR'S CONCERN OVER FLOWER-GULF PROJECT IN LIBERIA. ABSORPTIVE CAPACITY LIBERIAN ECONOMY FOR DEVELOPMENT LOANS IS LIMITED, AND ALREADY CREATING PROBLEMS OF PIPELINE BUILDUP FOR INTERNATIONAL DONORS. THERE HAS BEEN LITTLE PLANNING IN AGRICULTURAL FIELD, AND NO VIABLE PROJECTS HAVE BEEN DEVELOPED WHICH MIGHT ABSORB EVEN FRACTION OF \$100 MILLION WITH HOPES TO REPAY OUT OF SHORT-TERM EARNINGS. YET GOL EXTERNAL DEBT BURDEN ALREADY HEAVY, WITH SERVICING THIS YEAR EXPECTED TAKE NEARLY 25 PER CENT OF REVENUES, AND CANNOT BE EXPECTED STAND ADDITIONAL LOAD. HOWEVER, IT IS IN AREA OF BALANCE OF PAYMENTS THAT FLOWER-GULF PROJECT POSES GREATEST POTENTIAL DANGER. WHATEVER THE NATURE OF PROJECT, WHETHER LOAN, LINE-OF-CREDIT, OR INVESTMENT, MAJOR PORTION OF FUNDS WOULD LIMITED OFFICIAL USE

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OF NECESSITY BE EXPENDED ABROAD FOR MACHINERY, EQUIPMENT, TECHNICAL EXPERTISE, ETC., REPAYMENT, WHETHER AS LOAN RETIREMENT OR THE REPATRIATION OF PROFITS, WOULD HAVE TO COME FROM DOMESTIC ECONOMY UNLESS PROJECT GENERATES EXPORT OR IMPORT-SUBSTITUTION EARNINGS TO SUCH A DEGREE AS TO BE SELF-FINANCING. THOUGH LIBERIAN BALANCE OF PAYMENTS NOW FAVORABLE (SEE MONROVIA A-78 OF AUGUST 22, 1974, NOTAL), NEGATIVE TREND MAY BE DEVELOPING. BOTTOM HAS DROPPED OUT OF LUMBER MARKET. DIAMOND AND RUBBER

PRICES HAVE WEAKENED. IRON ORE PRICES STILL GOOD, BUT SHAKINESS OF ECONOMIES INDUSTRIALIZED COUNTRIES DOES NOT BODE WELL FOR STEEL INDUSTRY. ON OTHER HAND, LIBERIA'S OIL IMPORT BILL EXPECTED BE ABOUT \$56 MILLION THIS YEAR AS COMPARED WITH \$16 MILLION IN 1973, AND OUTLOOK EVEN WORSE FOR 1975. ANY ADDITIONAL OBLIGATIONS COULD CREAT VERY SERIOUS PAYMENTS PROBLEM AND, SINCE LIBERIA USES U.S. DOLLAR AS DOMESTIC CURRENCY AND HAS NO RESTRICTIONS ON CAPITAL MOVEMENTS, RESULTING LOSS INTERNAL LIQUIDITY MIGHT BE CRITICAL.

5. ACTION REQUESTED: DEPARTMENT MAY WISH PASS THIS MESSAGE AS WELL AS REFEELS TO POSTS IN COUNTRIES (IF KNOWN) WHERE GULF DEVELOPMENT CO. ACTIVE. EMBASSY WOULD APPRECIATE ANY INFORMATION SUCH POSTS MAY BE ABLE DEVELOP ON COMPANY, ITS OWNERSHIP, CAPITALIZATION, AND ACTIVITIES.
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